



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

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TO: Steve Nelsen, Executive Director
LEOFF 2 Retirement Board

FROM: Marty McCaulay, FSA, EA, MAAA, Senior Pension Actuary *PMM*
Office of the State Actuary

CC: Matt Smith, FCA, EA, MAAA, State Actuary
Office of the State Actuary

RE: LEOFF 2 DUAL MEMBERSHIP

This memo presents the results of pricing the proposed changes to the calculation of retirement benefits for LEOFF 2 members with dual membership (service in other Washington State retirement systems). The proposal would increase the benefits for LEOFF 2 dual members by changing provisions related to the cap, indexing, and the inclusion of overtime in pay for benefit calculations. This would result in a LEOFF 2 total contribution rate increase of 0.00 percent to 0.04 percent. This would add liability to PERS, but most likely it would not increase the contribution rates in PERS.

Members Impacted

The proposal would impact the approximately 2,047 LEOFF 2 dual members. More detail is provided in the Appendix.

Cost Summary

We would need more time to do a complete actuarial analysis of the impact of this proposal. A preliminary observation is that the only significant change would be the change to include overtime and that change would only apply for LEOFF 2 members with prior PERS, TRS, or SERS service.

Most likely, the proposal would increase the LEOFF 2 liability by 0.0 percent to 0.1 percent (\$0 to \$4 million) and would increase the LEOFF 2 total contribution rate by about 0.00 percent to 0.04 percent. The proposal would also increase the PERS, TRS, and SERS liabilities, but most likely not by an amount sufficient to impact the contribution rates for these systems.

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Analysis

This section will include an analysis of the three main issues around dual membership and portability in this proposal. These include overtime, the cap, and indexing.

Overtime

The inclusion of overtime in the definition of the Average Final Compensation (AFC) would increase the retirement benefits for members eligible for portability. An analysis of LEOFF 2 experience shows that about 10 percent of retirements have been eligible for portability. However, only about 1 percent appear to have had the LEOFF benefit enhanced because of the portability provisions and the enhancements resulted in about a 33 percent increase for this 1 percent of members.

Under the assumption that 10 percent of future retirements will have their AFC enhanced by an additional 2 percent and that they have half the LEOFF 2 service of the average member retiring, we estimate that LEOFF 2 liabilities would increase by 0.0 percent to 0.1 percent, or \$0 to \$4 million. This translates to an increase in total contribution rates of 0.00 percent to 0.04 percent. The rate increases would be shared: 0.00 percent to 0.02 percent member, 0.00 percent to 0.01 percent employer, and 0.00 percent to 0.01 percent state.

The experience of the other systems (PERS, TRS, and SERS) shows that there were less than 0.1 percent of retirements who had membership in LEOFF 2. Under this assumption for future retirements, there is no significant fiscal impact to these systems.

Cap

Under current portability rules, benefits would be reduced in both systems on a proportional basis according to service. Under this proposal, the limit of 60 percent of AFC in PERS Plan 1 or TRS Plan 1 shall not apply for purposes of portability if the member has less than 15 years of service in PERS Plan 1 or TRS Plan 1.

There are about 300 members in LEOFF Plan 2 with dual membership in PERS Plan 1. This represents about 2 percent of the 14,754 active members.

Under the assumptions that 2 percent of future retirements are from PERS Plan 1, 20 percent of these members are subject to the cap, that these members have half the LEOFF 2 service of the average member retiring, and that the members increase their accrued benefit by 5 percent (one additional year of service), we estimate that the plan liabilities would increase by 0.00 percent to 0.01 percent, or \$0.0 to \$0.4 million. This translates to an increase that is insufficient to increase contribution rates.

There are very few dual members in TRS Plan 1 and we anticipate no material fiscal impact.

Indexing

The benefit for terminated members with at least 20 years of service is indexed by 3 percent per year from date of termination to actual date of retirement. Under this proposal, portability will allow membership in either system to count towards the 20 years of eligibility service.

Under the assumption that 10 percent are eligible, that they have half the LEOFF 2 service of the average member retiring, that they increase their benefits by 15 percent, and that their deferred termination benefits represent 1 percent of total liabilities, we estimate that LEOFF 2 liabilities would increase by 0.00 percent to 0.01 percent, or \$0.0 to \$0.4 million. This also translates to an increase that is insufficient to increase contribution rates.

The experience of the other systems (PERS, TRS, and SERS) shows that there were less than 0.1 percent of retirements who had membership in LEOFF 2. Under this assumption for future retirements, there is no significant fiscal impact to these systems.

Estimated Increase in Contribution Rates

Increase in Rates: (Effective 9/1/06)	Dual Membership	
	Low Estimate	High Estimate
Current Members	q	
Employee	0.00%	0.02%
Employer	0.00%	0.01%
State	0.00%	0.01%

Fiscal Impacts

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	Dual Membership	
	Low Estimate	High Estimate
2006-2007		
State:		

General Fund	\$0.0	\$0.1
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>
Total State	\$0.0	\$0.1
Local Government	\$0.0	\$0.1
Total Employer	\$0.0	\$0.2
Total Employee	\$0.0	\$0.2
2007-2009		
State:		
General Fund	\$0.0	\$0.2
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>
Total State	\$0.0	\$0.2
Local Government	\$0.0	\$0.2
Total Employer	\$0.0	\$0.4
Total Employee	\$0.0	\$0.6
2006-2031		
State:		
General Fund	\$0.0	\$5.9
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>
Total State	\$0.0	\$5.9
Local Government	\$0.0	\$7.8
Total Employer	\$0.0	\$13.7
Total Employee	\$0.0	\$13.7

Assumptions

This analysis is based on the actuarial valuation performed as of September 30, 2004. Counts of dual members include any record where service is greater than zero. The inactive category includes vested and non-vested members who have separated from service. The retired category includes both service and disability retirees.

Appendix

A compilation of information about LEOFF 2 dual membership.

Summary

Of the 16,955 active, inactive, and retired members in LEOFF 2, there are 2,047 members (12 percent) with dual membership. Of the 12 percent with dual membership; 1,905 (93 percent) are in PERS, 65 (3 percent) are in TRS, 45 (2 percent) are in SERS, and 32 (2 percent) are in WSP. The largest number of members with dual membership are active in LEOFF 2; however, inactive

members have the highest percentage of dual membership.

Percentages Based on LEOFF 2 Status

Of the 14,754 active members in LEOFF 2, 1,485 (10 percent) have dual membership. Of the 10 percent with dual membership; 1,418 (96 percent) are in PERS, 34 (2 percent) are in TRS, 16 (1 percent) are in SERS, and 17 (1 percent) are in WSP.

Of the 1,788 inactive members in LEOFF 2, 505 (28 percent) have dual membership. Of the 28 percent with dual membership; 436 (86 percent) are in PERS, 29 (6 percent) are in TRS, 28 (6 percent) are in SERS, and 12 (2 percent) are in WSP.

Of the 413 retired members in LEOFF 2, 57 (14 percent) have dual membership. Of the 14 percent with dual membership; 51 (89 percent) are in PERS, 2 (4 percent) are in TRS, 1 (2 percent) is in SERS, and 3 (5 percent) are in WSP.

Percentages Based on System

Of the 325,103 active, inactive, and retired members in PERS, 1,905 (0.59 percent) have dual membership with LEOFF 2.

Of the 114,375 active, inactive, and retired members in TRS, 65 (0.06 percent) have dual membership with LEOFF 2.

Of the 63,295 active, inactive, and retired members in SERS, 45 (0.07 percent) have dual membership with LEOFF 2.

Of the 1,826 active, inactive, and retired members in WSP, 32 (1.75 percent) have dual membership with LEOFF 2.

Data

This information is organized by active, inactive and retired members, as well as by plan, and is based on the preliminary data as of September 30, 2004.

Active LEOFF 2 Members with Dual Membership by System					
	SERS	PERS	WSP	TRS	TOTAL
Active	3	7	0	2	12
Inactive	13	1,411	16	31	1,471
Retired	0	0	1	1	2
Total	16	1,418	17	34	1,485

Inactive LEOFF 2 Members with Dual Membership by System					
	SERS	PERS	WSP	TRS	TOTAL
Active	14	247	10	26	297
Inactive	14	187	2	2	205
Retired	0	2	0	1	3
Total	28	436	12	29	505

Retired LEOFF 2 Members with Dual Membership by System					
	SERS	PERS	WSP	TRS	TOTAL
Active	1	5	0	0	6
Inactive	0	21	1	0	22
Retired	0	25	2	2	29
Total	1	51	3	2	57

Total LEOFF 2 with Dual Membership by System					
	SERS	PERS	WSP	TRS	TOTAL
Dual Membership	45	1905	32	65	2,047